May 30, 2014

Dear Honorable Chairman Brady:

Meridian Health welcomes this opportunity to advance our thoughts on how a short stay payment methodology could be designed. Meridian Health is a leading not-for-profit health care organization in New Jersey, comprised of Jersey Shore University Medical Center and K. Hovnanian Children's Hospital in Neptune, Ocean Medical Center in Brick, Riverview Medical Center in Red Bank, Southern Ocean Medical Center in Manahawkin and Bayshore Community Hospital in Holmdel.

As we have all come to experience, the inpatient short stay admission and observation patient classifications have created great difficulties among all key stakeholders including CMS, hospital providers, and most importantly, our senior citizens. The administrative burden placed on healthcare providers and CMS to administer this new "observation patient" status has been significant. The subsequent audit of these cases by the Recovery Audit Contractors (RAC) has proven to be expensive and has added an additional layer of overhead on healthcare providers to satisfy the audit requirements and to successfully appeal many of the audit determinations. The clinical decision by a physician as to what is best for a patient has become secondary to the length of time a patient spends in an acute care bed.

The additional cost burden on beneficiaries is also significant. We are learning that an increasing number of Medicare beneficiaries are requesting not to be placed in observation because of the potential for them to be responsible for more of the costs as opposed to an inpatient stay. The arbitrary determination of what constitutes an inpatient stay from an observation does not make sense to Medicare beneficiaries and only serves to confuse and concern them as to how care will be administered and what the cost of that care will be to them. It's time to redesign the regulations and payment methodologies to protect our seniors before this problem escalates and creates a patient safety issue.

We recommend eliminating in its entirety the observation payment category and replace it with a brand new reimbursement category called "*Inpatient Short Stay*". There could be a number of ways to calculate and implement a short stay payment category. We suggest designing a payment system similar to the existing Transfer Diagnostic Related Group (DRG) payment methodology, which should have minimal administrative burden to establish since the methodology is already being utilized by CMS. Although Transfer cases and the proposed Inpatient Short Stay are unique topics, the mechanics utilized to calculate the reimbursement for a Transfer DRG could easily be employed in determining the reimbursement for an Inpatient Short Stay.

In short, we recommend the following guiding principles:

- Patients staying less than 48 hours will be considered an "*Inpatient Short Stay*", with the exception of cases resulting in death, against medical advice, and cases categorized on the Medicare "inpatient only" list.

- An Inpatient Short Stay Payment System should utilize the existing inpatient Diagnostic Related Group (DRG) structure to place a patient into a classification.

- The payment will be determined by dividing the appropriate IPPS full rate by the geometric mean length of stay for the specific DRG under which the patient was treated.

- Enhance the value of day one's per diem similar to the payment methodology used for Transfer DRGs, which is two times the straight calculated per diem rate. The first day of any stay, whether it is a long or short stay, is always the most intensive in terms of the utilization of resources consumed.

- Example Calculation:
  - DRG 103: "Headaches without a MCC"
  - Assigned Geometric Mean for DRG 103 is 2.3 Days.
  - IPPS calculated full inpatient rate is $5,356.31 (this will be different for each hospital)
  - Straight Line Per Diem Based on the Geometric Mean = $2,328.83
  - First Day of Stay needs to be a graduated per diem rate from straight line to account for the resources consumed.

- A patient staying greater than 48 hours will be categorized as a regular inpatient stay and the full DRG reimbursement rate would be applied.

We strongly believe this new proposed system will increase patient satisfaction scores, reduce the administrative burdens on both CMS and healthcare providers and create a more consistent and improved reimbursement system for all Medicare beneficiaries. In addition, tax payer dollars spent on Recovery Audit Contractors (RACs) should be significantly reduced and can be redirected to support the *"Inpatient Short Stay"* program.

We would welcome any questions or the opportunity to discuss any additional information that you may need to set this course. We are committed to working with you to create a better system for the well being of all stakeholders. Thank you.

Sincerely yours,

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